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March 15, 2000

Ms. Magalie Salas  
Secretary  
Federal Communications Commission  
Room TW-A325, The Portals  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

RECEIVED  
MAR 15 2000  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

RE: In the Matter of Applications for Consent to the Transfer of Control of  
Licenses and Section 214 Authorizations from Ameritech Corporation,  
Transferor, To SBC Communications Inc., Transferee,  
(CC Docket No. 98-141)

Dear Ms. Salas:

In accordance with Paragraph 65(c) of the SBC/Ameritech Merger Conditions, SBC Communications Inc. (SBC) submits the attached "Annual Compliance Report." The attached report details SBC/Ameritech's compliance for the preceding calendar year and is for the period from October 8, 1999 through December 31, 1999.

Questions regarding this report may be directed to Ms. Jeannie Fry at 202.326.8894.

Sincerely,

A handwritten signature in cursive script that reads "Marian Dyer".

Attachment

Cc: (Transmittal letter only)  
Ms. Carol Matthey  
Mr. Anthony Dale

No. of Copies rec'd 0  
List ABCDE

**SBC Communications Inc.**

**SBC/Ameritech Merger Conditions  
1999 Compliance Report**

Charles E. Foster  
Group President  
SBC Communications Inc.

March 15, 2000

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**March 15, 2000**

## **Executive Summary**

The SBC/Ameritech Merger Conditions ("Merger Conditions") require SBC Communications Inc. ("SBC" or "Company") to submit a report annually by March 15 addressing the Company's compliance with the Merger Conditions for the preceding calendar year. This report summarizes SBC's compliance efforts from October 8, 1999, the Merger Close Date ("MCD"), including efforts completed as of merger close, through December 31, 1999. As demonstrated in this report, SBC has implemented required commitments for this reporting period, is in compliance with the Merger Conditions, and has made required changes in business processes to ensure continued compliance.

The Merger Conditions required SBC to fulfill numerous requirements by firm deadlines: the MCD, within several days of the MCD and within 30, 60 or 90 days of the MCD. In all, SBC was required to meet over 100 commitments during the first 90 days following the MCD. As this report demonstrates, SBC has met these commitments. Moreover, SBC has during this period further defined and refined processes and procedures for implementing Merger Condition requirements after December 31, 1999, thereby ensuring ongoing compliance with the Conditions as a whole.

The SBC/Ameritech Merger Conditions established the following 5 policy goals:

- Promoting equitable and efficient Advanced Services deployment;
- Ensuring open local markets;
- Fostering out-of-region local service competition;
- Improving residential phone service; and
- Ensuring full compliance with all Conditions.

The following list provides an abbreviated summary of the actions taken by SBC and its subsidiaries to implement the Merger Conditions in 1999.

### **Promoting equitable and efficient Advanced Services deployment**

- Filed for all state certifications and approvals necessary for the establishment of a separate Advanced Services affiliate in the 8 SBC states. Prior to the MCD, separate Advanced Services affiliates had already been established and were fully operational in the 5 Ameritech states.
- Began the planning, systems design, and operational start-up activities required to implement requirements that the Advanced Services affiliates use the same non-discriminatory procedures as SBC's competitors to access facilities and services once steady-state operations are reached.

- Offered surrogate line sharing discounts to competitors.
- Provided unaffiliated carriers access to loop information.
- Offered interim loop conditioning rates to all Competitive Local Exchange Carriers ("CLECs").
- Classified urban and rural wire centers and designated low-income pools for Advanced Services deployment.

### **Ensuring open local markets**

- Southwestern Bell Telephone ("SWBT"), Pacific Bell, and Nevada Bell implemented modifications to existing performance measurement processes and began monthly reporting of the 20 performance measurements outlined in the Merger Conditions.
- In the 5 Ameritech states, implemented performance measurement processes that previously did not exist and began monthly reporting for 11 of the 20 measurements in early January 2000.
- Eliminated flat-rate monthly charges, where they existed, for access to Operational Support Systems.
- Held training forums in all 4 regions to assist CLECs with OSS issues.
- Filed collocation tariffs or amendments in all states prior to the MCD.
- Offered most-favored-nation ("MFN") interconnection agreements.
- Offered to provide multi-state interconnection/resale agreements.
- Offered unbundled loop discount of 25% off the lowest applicable monthly price.
- Offered increased resale discounts.
- Offered a five-city trial that would provide CLECs access to a single point of interconnection ("SPOI") to cable owned by SBC in multi-tenant buildings.
- Offered to build a SPOI when property owners or other parties own/maintain cabling beyond the SPOI.

### **Fostering out-of-region competition**

- SBC began its planning efforts and is on track to enter the first 3 out-of-region markets (Boston, Miami, and Seattle) established by the national-local strategy within 12 months of MCD.
- Initiated negotiations of interconnection agreements with 4 ILECs in various markets in 1999.

- Applied for state certifications in 12 states plus the District of Columbia in 1999.

### **Improving residential phone service**

- Ensured that The Southern New England Telephone Company ("SNET") was in compliance with Condition 22 regarding minimum monthly charges for long distance.
- Affirmed through the Texas long distance application SBC's commitment to offer long distance plans without minimum monthly charges.
- Filed letters with 12 state commissions offering the new Enhanced Lifeline Plan, which will ensure that low-income consumers can continue to receive discounted telecommunications services.
- Implemented corporate-wide the service quality reporting requirements of the National Association of Regulatory Utility Commissioners' Technology Policy Subgroup's Service Quality White Paper adopted November 11, 1998. In addition, Pacific Bell and Nevada Bell implemented these requirements earlier than the date required by the Merger Conditions
- Attended all 1999 meetings of the Network Reliability and Interoperability Council.

### **Ensuring full compliance with all Conditions**

- Prior to MCD, appointed a Corporate Compliance Officer.
- The Audit Committee of the Board of Directors was directed by the SBC Board of Directors to oversee the Corporate Compliance Officer's work.
- Selected independent auditors who were subsequently approved by the Commission.
- Provided the Commission with a Compliance Plan outlining the processes, procedures, and controls being implemented to ensure ongoing compliance corporate-wide with all Merger Conditions, discussed the Compliance Plan with the Audit Staff of the FCC's Common Carrier Bureau, and made adjustments to the Compliance Plan to address issues raised by the Audit Staff.
- In conjunction with the Commission's Accounting Safeguards Division Audit Branch and the Independent Auditor, completed 3 comprehensive audit programs as defined by the Merger Conditions.

This report is divided into two sections that track the Compliance Plan SBC submitted to the Commission in December 1999. The first section provides a

summary of the actions being taken to help ensure overall compliance. The second section provides an update on each Merger Condition.

SBC believes this report demonstrates not only our compliance with the Merger Conditions, but also our ongoing commitment to meet the Commission's established goals. Furthermore, the implementation of these Conditions will help create an environment for competition and transform the telecommunications marketplace by ensuring competition, driving down rates, spurring innovation and bringing consumers more choice. SBC remains committed to ensuring ongoing compliance in 2000 and beyond.

**Introduction**  
**SBC Merger Annual Compliance Report**  
**March 15, 2000**

On October 6, 1999, in CC Docket No. 98-141, In re Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5,22,24,63,90,95 and 101 of the Commission's Rules, the Federal Communications Commission ("FCC") approved the merger of SBC Communications Inc. ("SBC") and Ameritech Corporation ("Ameritech") and adopted Merger Conditions that affect the combined entities post-merger business operations. SBC and Ameritech consummated the merger on October 8, 1999 (the "Merger Close Date" or "MCD"). Pursuant to the Merger Conditions, Paragraph 65c requires that an annual compliance report be submitted no later than March 15 of the calendar year following the year covered by the report.

SBC provides this Annual Compliance Report for Calendar Year 1999 in compliance with Paragraph 65c.

This first section of the report provides a summary of key issues as outlined in the Compliance Plan provided to the Commission on December 6, 1999. Directly following this section is a detailed assessment of the actions taken to meet the commitments due in 1999. This report is organized according to the Conditions (i.e., 1-30) in Appendix C of the Memorandum and Order in CC Docket No. 98-141, released on October 8, 1999, and includes a discussion of appropriate training and internal controls put in place to ensure ongoing compliance.

SBC is committed to meeting all Merger Condition requirements and has dedicated to this effort the resources required to achieve and ensure compliance on an ongoing basis.

## **1. Assignment of Compliance Responsibilities**

### **1.1 Corporate Compliance Officer**

Charles E. Foster, Group President, was appointed to be the Corporate Compliance Officer on July 13, 1999. The SBC Board of Directors subsequently approved Mr. Charles Foster's appointment and directed the Audit Committee of the Board to oversee the activities of the Compliance Officer. During the period covered by this report, Mr. Charles Foster had the following responsibilities:

- Overseeing the implementation of the Merger Conditions;
- Monitoring SBC's compliance program and progress toward meeting all deadlines specified in the Merger Conditions; and



- Providing periodic reports to the Commission regarding SBC's compliance as required by the Merger Conditions and consulting with the Commission on an ongoing basis regarding SBC's compliance with the Merger Conditions.

## 1.2 Audit Committee

- On September 24, 1999, the Audit Committee was assigned to oversee the Corporate Compliance Officer's fulfillment of his responsibilities.
- On November 19, 1999, Mr. Charles Foster met with the Audit Committee of SBC's Board of Directors and provided them with an update on SBC's progress in meeting the Merger Conditions.

## 1.3 Merger Compliance Group

Mr. Charles Foster appointed Ms. Mary Tudela as Senior Vice President - SBC Compliance on November 1, 1999. Shortly after her appointment, Ms. Tudela began to assemble a Merger Compliance Group to deal with administrative matters related to merger compliance.

In addition, the Senior Executive Vice President – External Affairs has created a separate External Affairs Compliance Staff in the SBC Washington D.C. office. In 1999, an individual was appointed as Vice President-Federal Regulatory, with External Affairs compliance responsibilities. Going forward, the Washington D.C. External Affairs Compliance Staff responsibilities include the relationship with the Commission on merger compliance, audits, complaints and service quality reporting.

## 1.4 Compliance Coordinator

Ms. Tudela's Staff (the "Merger Compliance Group") includes four lead individuals responsible for coordinating merger compliance activities whose responsibilities are assigned as follows:

- Executive Director – Performance Measures
- Executive Director – Compliance Support
- Executive Director – Merger Compliance
- Executive Director – Regulatory Liaison

As of December 31, 1999, these lead individuals within the Merger Compliance Group were in the process of adding staff to their organizations.

## 1.5 Executive Compliance Group

Prior to the MCD, responsibility for implementing and securing compliance with each Merger Condition was assigned to officers and senior managers in the affected business units. For each of the Merger Conditions, one corporate officer or senior manager was designated as having primary responsibility for achieving compliance. Taken collectively, these individuals constitute the "Executive Compliance Group". In addition, Mr. Paul Mancini, Vice President & Assistant General Counsel, was designated as the SBC legal officer to provide legal advice and support to the Merger Compliance Group. A list of the accountable officers and their respective Conditions is attached in the Appendix.

Officers in the Executive Compliance Group have the following responsibilities:

- Reporting to the Corporate Compliance Officer and his delegates on the status of compliance activities related to the specific Merger Conditions for which they are responsible;
- Notifying the Corporate Compliance Officer immediately of any issues, problems, or circumstances needing resolution in order for compliance activities to proceed on schedule;
- On request, certifying compliance with specific Merger Conditions and supplying documentation necessary to confirm such compliance; and
- Ensuring compliance by their respective staffs with all records retention, document preservation, and document production requirements arising out of, or in connection with, the Merger Conditions.

## 2. Compliance Deadlines and Plans

### 2.1 Compliance Matrices/Timelines

In order to provide ongoing and consistent internal controls, a compliance matrix (timeline) was compiled prior to the MCD. This matrix is updated weekly. Members of the Executive Compliance Group, as well as legal counsel and the External Affairs Compliance Staff, participate on a weekly conference call with the Corporate Compliance Officer (or his delegate) in attendance.

### 2.2 Team Compliance Plan

In addition, all members of the Executive Compliance Group have submitted a Team Compliance Plan for their respective Conditions. These Plans, taken in the aggregate, were filed with the Commission on a confidential basis on December 6, 1999 as "The Merger Conditions Compliance Program" as required by Paragraph 66b of the Merger Conditions. Each Plan includes: a summary; a

discussion of key objectives; internal controls; training; documentation; and plans for corrective action, if required.

## **2.3 Team and Business Unit Matrices and Timelines**

In order to provide additional controls, individual teams and Business Units have developed their own matrices and timelines when needed for project management purposes.

## **3. Audit and Documentation Requirements**

### **3.1 General**

As part of each Compliance Plan (discussed above), individual Condition owners have already put in place document retention procedures. These and other methods and procedures relating to document retention are under review. Additional or new procedures, as required, will be developed and implemented no later than the Second Quarter 2000.

### **3.2 Annual FCC Compliance Report**

The Annual Compliance Report as submitted herein is required by Paragraph 65c of the Merger Conditions. This report addresses SBC's compliance with the Merger Conditions and documents the internal controls SBC has adopted to ensure compliance. Each Business Unit has maintained sufficient documentation to enable the Corporate Compliance Officer to file this report and attest to its accuracy.

### **3.3 Independent Compliance Audit**

On September 7, 1999 SBC engaged Ernst & Young LLP ("EY") as the independent auditor. As required by Paragraph 66, EY was not instrumental during the past 24 months in designing all or substantially all of the systems and processes under review in the audit, viewed as a whole. The Commission approved the auditor on August 24, 1999.

The preliminary annual audit program was submitted to the Commission on November 12, 1999. After a series of meetings with the Commission's Audit Branch the agreed upon procedures audit program was completed on January 6, 2000, with the Commission acceptance letter dated January 10, 2000.

The independent auditor is aware of, and responsible for, fulfilling its duties as outlined in the Merger Conditions, including the audit engagements.

Consultations with the Commission's Accounting Safeguards Division's Audit Staff have occurred and are continuing through SBC's Washington, D.C. office.

Ms. Mary Tudela, Senior Vice President – SBC Compliance, will provide audit support within her organization. She will be responsible for ensuring that audit plans and audit reports are completed according to this Merger Condition. She will also ensure that the independent auditor will have access to books, records and customers as appropriate. Team Leaders have been directed to give appropriate instructions to all applicable personnel concerning cooperation with the independent auditors. Additional written information will be sent to all Team Leaders and their teams to ensure they fully comply with the auditing requirements.

#### **4. Corporate Communications and Training**

##### **4.1 General**

In 1999, the Corporate Compliance Officer and his delegates undertook a series of actions to ensure that all personnel understand their obligations under the Merger Conditions. Those actions included:

- Conducting training sessions to assure that every SBC/Ameritech officer understood his or her obligations under the Merger Conditions, and
- Assigning a training coordinator(s) to every Merger Condition.

##### **4.2 Training**

Employee training has always been an integral component of SBC Communications' corporate culture. Even before the Merger Conditions were formalized, employees with training responsibility, both at SBC and Ameritech, were actively analyzing the draft Merger Conditions and developing appropriate training so that employees would understand their job duties and the behavior expected of them once the final Conditions were enacted. Now that the Merger Conditions are formally in place, SBC has taken an aggressive approach to ensuring that impacted employees are appropriately trained on those Conditions.

In those cases where the Merger Conditions referenced rules and regulations in place prior to the effective date of the Conditions, employee training had already been developed. For example, in October of 1999, the Southwestern Bell Telephone network organization delivered comprehensive training to its employees regarding performance measures, including review of the business rules and training on the systems and applications in place to assure accurate and timely data collection. As a result of the merger, existing training such as

that described above has undergone extensive review and has been updated and enhanced to reflect any additional requirements of the Merger Conditions.

Finally, with the effective date of the Merger Conditions, each Merger Condition training coordinator launched an aggressive Merger Condition training activity, including the delivery of existing material and the development and delivery of new material. In 1999, there were in excess of 80 separate Merger Condition training sessions held across the corporation. These sessions were conducted by the Condition training coordinators and included employees from many different disciplines including both the LEC and the Advanced Services affiliates' employees.

#### 4.3 Website(s)

Development of a comprehensive internal website is currently underway. In the interim, employees have been advised that they can access Merger Conditions documents and other Merger Condition supporting material directly from the Commission's website.

In addition, both SBC and Ameritech maintained external password protected websites for CLEC use prior to the MCD. In advance of MCD, these sites were updated to include information about the merger and these sites have been continually updated post merger to provide customer notices implementing various Merger Conditions.

#### 4.4 Policies, Guidelines, Methods and Practices

Activity in the year 2000 will include the addition of information regarding the Merger Conditions in internal SBC Code of Business Conduct and Ethical Practices documents. Guidelines that detail how the Condition training coordinators will track and document each training activity will be distributed to each coordinator. Individual business units undertook a review of policies, guidelines and methods and procedures for their respective operations. Methods and Procedures detailing the tasks required of an employee are being developed where appropriate.

### 5. Non-Compliance

#### 5.1 General

A key responsibility of the Corporate Compliance Officer is to exercise due diligence in detecting and responding to possible instances of non-compliance with the Merger Conditions.

## 5.2 Internal Reports of Non-Compliance

The Compliance Program outlines a process to be followed by Company personnel who believe, or have reason to believe, that the Company is not in compliance with the Merger Conditions or that anyone associated with the Company has committed, intends to commit, or is giving consideration to the commission of acts that may violate the Merger Conditions. In such cases, Company personnel are instructed to contact the Legal Department or to use a toll - free number to report such activities. These reports may be made anonymously and without fear of retaliation. Substantiated reports of non-compliance were to be reported to the Corporate Compliance Officer. As of December 31, 1999, Mr. Charles Foster received no internal reports of non-compliance.

## 5.3 External Reports of Non-Compliance

The Compliance Program also outlines a process for addressing external issues or questions raised regarding potential non-compliance. The Corporate Compliance Officer or his delegates received 8 such issues or questions in 1999.

The following issues were related to Condition 1:

- A state regulatory Commission in the Ameritech states requested further information and concurrence by SBC/Ameritech to the state's interpretation of SBC/Ameritech's required compliance activities within six months of MCD. SBC responded with clarifications to several items. Discussions with the regulatory Commission were ongoing at the end of 1999 as to the need for additional certifications for AADS. SBC believes that it was in compliance.
- A CLEC complained to the Commission regarding issues raised in a docketed proceeding in California (A.99-10-009) concerning the Advanced Services affiliate's interconnection agreements. The CLEC maintained that the provision in the interconnection agreements allowing the affiliate exclusive use of shared lines in providing DSL was no longer permissible under the Commission's November 18, 1999 line sharing order. SBC has responded in the California proceeding, and separately to the CLEC, that it believes it was in compliance with the Merger Conditions.

The following issue was related to Condition 11:

- A CLEC complained that SNET had delayed the CLEC's entry by not accepting early applications, that SNET had not refunded fees for canceled applications, and that particular collocations sites were flawed. Several conference calls were held with SNET, the CLEC and other SBC personnel to

investigate and resolve the issue. After discussions, the flawed collocation sites were addressed and the CLEC retracted the complaint.

The following issue was related to Condition 12:

- A CLEC group raised concerns about the SBC Advanced Services affiliate's proposed interconnection agreement with Nevada Bell with respect to the language which they perceived as preventing other CLECs from exercising the Most Favored Nations "MFN" or "pick and choose" option for individual provisions of the agreement without choosing the entire agreement. SBC discussed the issues with the CLEC group and it was determined that there was no disagreement between SBC and the CLEC group regarding the "opt-into" provisions, but indeed there was confusion regarding SBC's standard MFN language in its generic agreements. SBC elected to revise that language in the generic agreement to remove any ambiguity. Additionally, SBC withdrew its proposed interconnection agreement in Nevada and subsequently refiled with its revised language.

The following issue relates to Condition 13:

- A CLEC complained about the availability and delivery of the Multi-State Interconnection/Resale Agreement and the promptness of SBC's delivery of a copy of the Agreement to the CLEC for its review. By December 7, 1999 (60 days after merger closing), SBC had created generic interconnection and resale terms and conditions covering the SBC/Ameritech Service Area in all SBC/Ameritech States. SBC also posted a message on the publicly-available area of the two SBC websites stating that the Agreement was available to any requesting carrier. The message further stated: "[T]o obtain a copy of a Multi-State Interconnection/Resale Agreement, please contact your Account Manager." SBC believes that its business practices were in compliance with the Merger Conditions; nonetheless, SBC put the entire Multi-State Interconnection/Resale Agreement on a public, non-password protected website for review by any interested CLEC.

The following issue was related to Condition 15:

- A CLEC complained about the availability of discounts for resale service. The CLEC was informed that the discounts were available and that it must obtain an interconnection agreement amendment before it would receive the benefits of the Merger Conditions. SBC believes that it was in compliance with Condition 15.

The following issue was related to Condition 17:

- A CLEC asked that a call waiting indicator light telecommunications service that was available in Connecticut be available in California. The service was

not an unbundled network element, and the issue was resolved. SBC believes it was in compliance with Condition 17.

The following issue was not related to a specific Condition:

- A CLEC indicated that it was not satisfied with changes in the account team. The reasons for the change were explained, and the CLEC was satisfied. SBC believes it was in compliance.

## **6. Discipline**

### **6.1 Intentional or Reckless Disregard of Merger Condition Requirements**

SBC has specified in its Compliance Program that violations of Merger Conditions resulting from intentional or reckless behavior shall be treated in the same manner as Code of Business Conduct violations and shall subject violators to disciplinary action, up to and including dismissal. Pursuant to this process, no SBC employees were identified as violating the Merger Conditions during the period covered by this report.

### **6.2 Review of Disciplinary Decisions**

The Corporate Compliance Officer is charged with the responsibility to review all disciplinary decisions relating to violations of the Merger Conditions and shall take appropriate action to ensure that discipline relating to violations of Merger Conditions due to intentional or reckless misconduct is appropriate and consistently applied.

## **7. Corrective Action**

### **7.1 Responsibilities of the Corporate Compliance Officer**

The Corporate Compliance Officer was responsible in 1999 for reporting any instances of non-compliance to the Commission in accordance with the Merger Conditions. The Corporate Compliance Officer is also responsible for SBC's compliance with the requirement that voluntary payments due under the Merger Conditions be made within 10 business days of a determination by the Corporate Compliance Officer, the Commission, or an arbitrator that payment is due.

No voluntary payments were due during the period covered by this report, and there were no violations requiring self-reporting during this period.



## **7.2 Responsibilities of Members of the Executive Compliance Group**

Pursuant to the Merger Conditions Compliance Program, members of the Executive Compliance Group were responsible for achieving the deadlines required in 1999 by the Merger Conditions in their respective areas. They were also required to report directly to the Corporate Compliance Officer in the event of a failure or anticipated failure to meet any deadline. In such instances, members were to provide a plan for bringing the Company into full compliance as soon as possible.

All commitments due during the 1999 reporting period were met.

## **7.3 Responsibilities of Business Units**

The heads of each business unit, each organization within a business unit, and each work group were responsible for bringing their units, organizations, or work groups into full compliance with the Merger Conditions and to promptly remedy any situations that might lead to non-compliance. Responsibilities included investigating any organization or work group that failed to detect violations, preventing recurrences of violations within a business unit, and disciplining, on a case-specific basis, the personnel responsible for any failure of non-compliance.

All commitments during this reporting period were met.

## **8. Effective Date and Duration of Compliance Program**

### **8.1 Consultation with Commission Audit Staff**

The effective date of the Compliance Program was December 6, 1999.

### **8.2 Consultation with Commission Audit Staff**

On December 6, 1999, SBC provided its Compliance Plan to the Commission's Audit Staff for review and comment. A letter providing notice of this action was filed the same day with the Secretary of the Commission. Following comment from the Commission staff, the staff's recommendations were provided to the appropriate business unit for improvement of their respective plans.

## **9. Merger Efficiencies**

Activities following the October 8, 1999 closing of the merger centered on developing an operational plan for integrating the functions of SBC and Ameritech entities. Teams were established to analyze the major functions of the

merged entities and develop a plan to integrate operations. The teams focused on three main areas: (1) elimination of duplication, (2) review of best practices, and (3) analysis of potential consolidation of work efforts. This planning and integration phase lasted from the MCD through early December of 1999. Normal business and antitrust concerns prevented SBC and Ameritech from undertaking this effort prior to the MCD.

Following this effort, team integration plans were reviewed and business units authorized to proceed with actual integration initiatives. As individual teams proceed, they are responsible for identifying and reporting costs necessary to implement their plans as well as going-forward efficiencies resulting from merger integration activities. These reports will be reviewed monthly to determine how well each team's actual performance compares with that team's projected performance.

Most teams did not receive approval to implement plans until mid-December of 1999. Therefore, changes in operations produced no significant efficiency gains realized during this reporting period. Those limited efficiencies that were realized in 1999 resulted from operational changes at the holding company level.

Holding company teams reviewed activities associated with the following functions: Corporate Finance, Human Relations, Legal, Regulatory/External Affairs, Corporate Development, Corporate Strategy and Corporate Communications. Their plans and recommendations consisted, predominantly, of efforts to eliminate duplication. They began a concerted effort to eliminate this duplication in late November 1999 and started to see some minor savings with December results. These activities were not completed in 1999. Significant efficiencies for these holding company functions will not be realized until 2000 or beyond.

Information on the one-time charges related to the merger is provided in SBC's 1999 Annual Report.

On a total corporate basis, we anticipate seeing a phased-in gain from efficiencies that will be realized in future years.

**Condition Number: 1****Condition Name: Separate Affiliate for Advanced Services****Section 1: Summary**

Condition 1 requires SBC/Ameritech to provide Advanced Services (as defined in Paragraph 2) through one or more structurally separate, Section 272-like subsidiary(s). Condition 1 also prescribes requirements for the creation of the separate affiliate and defines in careful detail the permitted relationship and degree of separation between the LEC and the separate affiliate. This Condition also sets forth a set of transitional rules for (a) the migration of Advanced Services customers from the LEC to the separate affiliate and (b) the provision of certain services by the LEC for the separate affiliate(s). Other rules within this Condition govern the provision of interim line sharing, performance measurements and the sunseting of the separation requirements.

As a Condition precedent to the Merger Close Date ("MCD"), SBC and Ameritech completed the following required activities:

- SBC and Ameritech incorporated and established separate Advanced Services affiliates to provide Advanced Services in each of the 13 SBC/Ameritech states.
- SBC and Ameritech filed for required state certifications and approvals necessary for the separate affiliates to provide Advanced Services in all of the SBC/Ameritech states.
- The SBC and Ameritech Advanced Services affiliates negotiated interconnection agreements with the SBC/Ameritech incumbent local exchange companies and filed those agreements for approval with state commissions in the SBC/Ameritech states.

Prior to the Merger, all Advanced Services offered by SBC were provided by the LEC. Following the merger, in order to "carve out" the existing Advanced Services from the LEC, SBC conducted an exhaustive analysis of systems, networks, equipment, work force and all other essential elements. All of these LEC Advanced Services customers will be migrated to Advanced Solutions, Inc. ("ASI") in 2000.

Because Condition 1 requires specific actions to be undertaken in 1999 by numerous business units within SBC, four SBC business units have been charged with meeting all aspects of the Merger Conditions requirements. The SBC Corporate Compliance Officer, Mr. Charles Foster, has designated a Responsible Officer for each of the four business units, and each Officer is responsible for assuring that all of the Condition 1 requirements within his/her area of responsibility are met. The four officers with responsibility for implementation of Condition 1 are set forth in Section 2 below.

The Merger Compliance Group ensures that all affected business units work together to implement the required commitments.

The following sections describe the specific compliance activities undertaken pursuant to Condition 1, the persons responsible for such actions, the Methods and Procedures adopted or planned, the training given employees and the documentation available to establish compliance.

## **Section 2: Persons Responsible for the Advanced Services Affiliate(s)**

<b>Name</b>	<b>Title</b>
Mike Turner	President – SBC Advanced Solutions Inc.
Ross Ireland	Sr. Vice President-Network Planning & Engineering
Van Taylor	Senior Vice President – Network Services
Dave Gallemore	EVP–Strategic Marketing

## **Section 3: Implementation of Condition**

### **A. SBC-Advanced Solutions, Inc. (“ASI”) and Ameritech Advanced Data Services, Inc. (“AADS”)**

#### **1. Compliance**

Mike Turner, President of SBC-Advanced Solutions Inc. is the Responsible Officer for all the compliance activities of SBC’s Advanced Services affiliates. The SBC Advanced Services affiliates are:

- **SBC/ASI**  
Prior to the Merger, SBC Advanced Solutions Inc., a Delaware Corporation (“ASI”), was formed on July 27, 1999 to provide Advanced Services as defined by the agreement. On December 20, 1999, SBC Advanced Data Services Inc., (“ADSI”), an existing Texas Corporation that purchased, owned and leased equipment, merged into ASI.
- **AADS**  
The Ameritech separate Advanced Services affiliates are: Ameritech Advanced Data Services of Illinois, Inc., Ameritech Advanced Data Services of Indiana, Inc., Ameritech Advanced Data Services of Michigan, Inc., Ameritech Advanced Data Services of Ohio, Inc., and Ameritech Advanced Data Services of Wisconsin, Inc. (collectively “AADS”). These separate affiliates were formed prior to the SBC/Ameritech merger. The AADS entities are managed by ASI, and AADS employees ultimately report to ASI personnel.

All 1999 requirements for the Advanced Services affiliates in Condition 1 were met. The appropriate state certifications were obtained, and several

interconnection agreements were put into place (see Compliance Table below). SBC Legal interacting with the appropriate government agencies completed these steps. Normal ASI governance processes will insure ongoing compliance with the Condition.

The milestones listed in the Compliance Table (below) demonstrate the content and substance of the commitment to the 1999 objectives of the Condition. Structural separation was created, several transitional methods and procedures were written. These steps ensure that the Advanced Services affiliates are in compliance and will continue to be in compliance with Condition 1.

**Compliance Table**

Condition	Paragraph	Milestone	Due Date	Date Completed
1	1	Established structurally separate affiliate (Advanced Solutions Inc.)	Prior to Merger Close	07/27/99 Incorporated
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/Arkansas	Prior to Merger Close	8/16/99 Approved
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/Connecticut	Prior to Merger Close	8/16/99 Approved
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/Missouri	Prior to Merger Close	8/16/99 Approved
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/Nevada	Prior to Merger Close	8/16/99 Approved
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/Oklahoma	Prior to Merger Close	8/16/99 Approved
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/Texas	Prior to Merger Close	8/16/99 Approved
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/California	Prior to Merger Close	8/18/99 Approved
1	1, 5c, 5e	Secretary of State's State Certificate of Authority/Kansas	Prior to Merger Close	9/1/99 Approved
1	1, 5c, 5e	Corporation Certificates of Authority for Illinois, Indiana, Ohio, Wisconsin and Michigan	NA	In effect, pre-dates the 10/8/99 Merger Conditions
1	3	Established Affiliate Agreements between SBC ASI and SBC LECs.	On going	On going
1	3d	Establish ASI ownership process of new Advanced Services equipment	11/8/99	11/1/99
1	4n2 & 3, 5b	California – Certificate of Public Convenience & Necessity	Prior to Merger Close	Filed 9/28/99
1	4n2 & 3, 5b	Nevada – Certificate of Public Convenience & Necessity	Prior to Merger Close	Filed 9/10/99
1	4n2 & 3, 5b	Arkansas – Certificate of Public Convenience & Necessity	Prior to Merger Close	Filed 9/30/99
1	4n2 & 3, 5b	Kansas - Certificate of Convenience & Authority to Transact	Prior to Merger Close	Filed 10/5/99
1	4n2 & 3, 5b	Oklahoma – Certificate of Public Convenience & Necessity	Prior to Merger Close	Filed 9/30/99

Condition	Paragraph	Milestone	Due Date	Date Completed
1	4n2 & 3, 5b	Missouri – Certificate of Authority	Prior to Merger Close	Filed 9/30/99 Approved 12/30/99
1	4n2 & 3, 5b	Texas – Certificate Of Operating Authority	Prior to Merger Close	Filed 10/5/99 Approved 12/1/99
1	4n2 & 3, 5b	Connecticut - Certificate of Public Convenience & Necessity	Prior to Merger Close	Filed 9/29/99
1	4n2 & 3, 5b	Wisconsin – Petition as a Alternative Telecommunications Utility Reseller	Prior to Merger Close	Filed 5/21/93
1	4n2 & 3, 5b	Michigan – Certificate of Authority	Prior to Merger Close	Not Required
1	4n2 & 3, 5b	Illinois – Certificate of Operating Authority	Prior to Merger Close	In Effect
1	4n2 & 3, 5b	Ohio – Certificate of Operating Authority	Prior to Merger Close	In Effect
1	4n2 & 3, 5b	Indiana – Certificate of Operating Authority	Prior to Merger Close	In Effect
1	5a	California – Interconnection Agreement	Prior to Merger Close	Filed 9/28/99
1	5a	Nevada – Interconnection Agreement	Prior to Merger Close	Filed 9/7/99
1	5a	Arkansas – Interconnection Agreement	Prior to Merger Close	Filed 9/30/99 Approved 12/3/99
1	5a	Kansas – Interconnection Agreement	Prior to Merger Close	Filed 10/5/99
1	5a	Oklahoma – Interconnection Agreement	Prior to Merger Close	Filed 9/30/99 Approved 12/28/99
1	5a	Missouri – Interconnection Agreement	Prior to Merger Close	Filed 9/30/99 Approved 12/13/99
1	5a	Texas- Interconnection Agreement	Prior to Merger Close	Filed 10/5/99 Pulled down 12/15/99
1	5a	Connecticut – Interconnection Agreement	Prior to Merger Close	Filed 9/29/99 Approved 12/28/99
1	5a	Wisconsin – Interconnection Agreement	Prior to Merger Close	Filed 10/5/99 Approved 11/18/99
1	5a	Michigan – Interconnection Agreement	Prior to Merger Close	Filed 9/29/99 Approved 12/16/99
1	5a	Illinois – Interconnection Agreement	Prior to Merger Close	Filed 10/5/99 Approved 12/15/99
1	5a	Ohio – Interconnection Agreement	Prior to Merger Close	Filed 8/17/99 Approved 11/15/99

Condition	Paragraph	Milestone	Due Date	Date Completed
1	5a	Indiana – Interconnection Agreement	Prior to Merger Close	Filed 7/1/99 Approved 9/15/99
1	6a	AIT Wisconsin Intrastate Wholesale Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Wisconsin Intrastate Access Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Wisconsin Intrastate Retail Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Indiana Intrastate Wholesale Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Indiana Intrastate Access Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Indiana Intrastate Retail Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Michigan Intrastate Wholesale Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Michigan Intrastate Access Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Michigan Intrastate Retail Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Illinois Intrastate Wholesale Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Illinois Intrastate Access Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Illinois Intrastate Retail Tariff Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Ohio – no wholesale tariff to withdraw	N/A	N/A
1	6a	AIT Ohio Intrastate Access Grandfathered and Sunset	10/18/99	Filed 10/12/99
1	6a	AIT Ohio – no retail tariff to withdraw	N/A	N/A
1	6f	AIT Wisconsin Interstate Access Frame Relay Grandfathered and Sunset	10/13/99	Filed 10/12/99 Approved 10/27/99
1	6f	AIT Michigan Interstate Access Frame Relay Grandfathered and Sunset	10/13/99	Filed 10/12/99 Approved 10/27/99
1	6f	AIT Illinois Interstate Access Frame Relay Grandfathered and Sunset	10/13/99	Filed 10/12/99 Approved 10/27/99
1	6f	AIT Ohio Interstate Access Frame Relay Grandfathered and Sunset	10/13/99	Filed 10/12/99 Approved 10/27/99
1	6f	AIT Indiana Interstate Access Frame Relay Grandfathered and Sunset	10/13/99	Filed 10/12/99 Approved 10/27/99

Condition	Paragraph	Milestone	Due Date	Date Completed
1	6f	SWBT ILEC Interstate Tariff Withdrawal for Missouri	12/16/99	Filed 12/16/99
1	6f	SWBT ILEC Interstate Tariff Withdrawal for Arkansas	12/8/99	Filed 11/9/99 Amended 12/3/99 12/8/99

ASI is in the process of transferring Advanced Services assets from the LEC. Leading up to November 8, 1999, the LECs identified engineering work orders that contained placements for Advanced Services equipment that would not remain in service in the LEC beyond that date. Those projects were then closed, and new engineering work orders were established under a custom work order ("CWO") - like process to place new Advanced Services equipment within ASI.

ASI is required to own all new Advanced Services equipment placed into service 30 days after the MCD. Under this process, ASI hired LEC engineers through an affiliate agreement to engineer and place ASI's assets on ASI's behalf. The LEC engineers provided estimated costs for each project, which ASI was required to prepay prior to the placement of any equipment on that project. As the LECs placed new Advanced Services equipment, it was accounted for as "Under Construction" and then billed to ASI at the end of each month. Such equipment never went into "plant in service" accounts in the LECs. The capital associated with the equipment placements was immediately recorded at the end of each month on ASI's balance sheet, again avoiding the placement of any Advanced Services equipment within the LEC. At the end of each month when ASI was billed for the placed equipment, the billed totals were applied against ASI's prepaid accounts.

The only Advanced Service provided by the Ameritech incumbent LEC(s) prior to MCD was Frame Relay Service. In order to provide Frame Relay, the Ameritech incumbent LEC(s) purchased capacity from AADS for the use of their Frame Relay equipment. Effective with the SBC/Ameritech merger, the Ameritech incumbent LEC(s) ceased marketing Frame Relay service. All existing customers were notified of the change by a letter mailed on October 12, and by newspaper advertisements. On October 12, 1999, tariff filings were made to remove Frame Relay from the incumbent LECs' tariffs. As of October 27, 1999, all new requests for Frame Relay are being handled by AADS.

The embedded base of Frame Relay customers is being migrated to AADS. Migrating services includes creating an inventory of embedded customers and services capability, and inventory of equipment, customer notifications regarding the change in provider, and actually moving the services, without causing any disruption in service or quality of service to the customer. Frame Relay AADS conversion process was developed, documented, and tested in 1999. Conversion of Frame Relay circuits to Special Access began on December 27,



1999. All equipment used to provide Ameritech Advanced Services was already owned by AADS.

ASI announced the placement of 56 management employees in 1999. These appointments to ASI's leadership team included 3 officers and 2 senior managers. Leadership placements also included: VP-Network Planning & Engineering, VP-Operations, VP-Sales, VP-Transition, VP-Finance, Senior VP & CFO, Executive Director-Methods & Procedures and Director-Human Resources.

In 1999, human resources prepared proposals for the transition to the new ASI payroll system. ASI specific Responsibility Codes were created for the new ASI subsidiary.

Paragraph 11 of Condition I provides that in setting the annual bonuses paid to officers and management employees of the Advanced Services affiliates, SBC/Ameritech shall give substantial weight to the performance of the affiliate(s).

In the SWBT, Pacific Bell/Nevada Bell, and SNET region, the separate Advanced Services affiliate was created shortly before the Merger-Closing Date. Necessary state certifications, negotiations and filings of interconnection agreements, and initial staffing occurred in October, November, and December of 1999. Advanced Services customers served by ILECs in the SWBT, Pacific Bell/Nevada Bell, and SNET regions were not migrated to the Advanced Services affiliate during 1999. Few employees were transferred to ASI in 1999. Those that were assigned in 1999 spent a small fraction of the calendar year as ASI employees. Those employees were compensated for most of the calendar year 1999 under the bonus and incentive plans of their respective prior business units. For the limited period of time in 1999 when these employees were on the ASI payroll, substantial weight was given to ASI's performance in determining bonuses for that period. A significant factor in determining whether specific individuals would receive individual discretionary awards (and, if so, the amount of those awards) was the contribution of those individuals to meeting ASI's objectives during the period. Due to the absence of appropriate revenue and cost measures in evaluating the entity's pre-operational financial performance, a key factor considered was the contribution by specific employees to ASI's performance in meeting merger implementation and Merger Condition milestones and other requirements. For calendar year 2000, annual bonuses and other incentive plans for officers and management employees of ASI will also afford substantial weight to the performance of ASI during calendar 2000.

In the Ameritech five-state region, the AADS companies (one for each Ameritech state) were structurally separate from the Ameritech ILECs at all times during calendar year 1999. Substantial weight was given to the performance of the AADS companies in calculating 1999 bonus payouts to AADS officers and managers. For calendar year 2000, substantial weight will continue to be given to